

18 SEP 1959

MEMORANDUM FOR THE RECORD

SUBJECT: Meetings of the ORR Senior Economic Advisory Panel

PANEL MEMBERS: Prof.
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The newly-appointed Panel of Senior Economic Advisors to ORR met for the first time in Washington 9-11 September 1959. The agenda included briefings on the U.S. Intelligence Community and on the work of ORR/ERA and its mission in the community. The major activity of the Panel involved a detailed examination of the ORR contribution to NIE 11-4-59, "Soviet Capabilities and Probable Courses of Action Through 1964". Selection of this paper for review gave the Panel an opportunity to examine portions of the work of a large number of ERA components on a subject that is both timely and central to ERA's principal mission.

The Panel's Findings

After careful review of the paper and discussion of separate parts thereof with representatives of the producing components, the Panel gave an oral presentation of its findings to a representative group of ORR personnel, including the AD/RR, DAD/RR, Ch/E, DCh/E, the Division Chiefs and others. The findings as presented by Dr. [REDACTED] Rapporteur of the Panel, were, in summary, as follows:

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The paper makes a plausible case in support of its main thesis--that the USSR will be able to achieve a rapid rate of economic growth between now and 1965. The Panel agreed that Soviet industrial growth in this period will be much more rapid than agricultural growth; the latter may also be substantial, although probably not up to the Seven-Year Plan goals. The four major problem areas, which the Panel felt warranted further discussion were:

- a. Military Expenditures
- b. Problems of Measurement
- c. Soviet Manpower
- d. Single Estimates

Discussion of Problem Areas

a. Military Expenditures

The Panel suggested that the presentation of data on defense expenditures and resource allocation is of great significance and requires additional study. The paper addresses itself to one problem, "How much would the USSR military machine cost in the US?", and it apparently answers this question as effectively as is possible, with the data available. An equally important question "How effective is the Soviet military machine relative to the United States?" cannot be answered by economic data; the answer depends on the outcome of "war gaming" trials under specific assumptions. A further possible question "How great a burden is placed on the Soviet economy by its defense activities?" is not answered in the ERA/ORR draft paper. The Panel believes the burden is probably somewhere between the 11% of GNP in rubles as presented in the paper and the implied 20% when evaluated in dollars. Further, a helpful answer might be found by an effort to measure the effect on investment and consumption in both the USSR and the US economies if defense expenditures were cut by one-third. In other words how much is disarmament worth to the two economies? Ch/E stated that such an estimate may well be made after the present exchange of high-level visits, if specific disarmament proposals come up for consideration. ORR made similar estimates at the time Governor Stassen was negotiating a disarmament agreement with the Soviets. Messrs. [REDACTED] expressed the view that the 11% figure would be more clearly understood if it could be examined as to its effect if put to other economic purposes, that is, what are the Soviets forgoing in order to maintain and develop their present military establishment?

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Finally, the Panel believes that the consumers of the document should be given more information concerning the derivation of the estimates of dollar costs and the basic assumptions implicit in such estimates.

b. Problems of Measurement

A series of measurement problems lies at the heart of the growth estimates.

(1) The Panel believes that the industrial production index may be based on weights that are out of date. The Panel members consider it important for ORR to research available data to attempt to improve the weights; it may be possible to obtain more current estimates than the 1941 wage weights have produced. This index is so crucial that the Panel believes efforts to increase its reliability should be made even if the prospects for a pay-off are relatively low. Dr. [REDACTED] expressed the hope that results of such efforts would be published for the use of the academic community.

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(2) The Panel also suggested that an evaluation of net as well as gross investment would provide a better guide to economic growth estimates. While recognizing that estimates of net investment are extremely difficult, even for the US, the Panel believes even rough estimates of the proportions of gross investment that represent net additions to plant and equipment would be of value. It recommended that ORR attempt to develop net investment data for the USSR.

c. Soviet Manpower

The apparent shortage of labor during the Seven-Year Plan period seems somewhat paradoxical in view of the proposed reduction in the hours of work, past failures to achieve labor productivity goals and the great apparent labor surplus in agriculture. The Panel wishes to emphasize the importance of closely watching developments in the manpower area, including the military, in view of the likelihood that manpower may become a major problem to the Soviet leadership.

25X1A9a Dr. [REDACTED] asked if the comment on the treatment of manpower indicated that the Panel thought our statement was too sanguine. Dr. [REDACTED] replied that the paradox was so evident that the Panel felt it should be pointed out. Dr. [REDACTED] said that the intent was to show our judgment that the manpower problem was not serious enough to hamper them. The Ch/E/RR noted that the Soviets have a lot of potential industrial labor and management squirreled away in such overstaffed activities as security forces, school administration, etc. Dr. [REDACTED] added that labor productivity in Soviet industry would go up markedly (5-6%) because of the tremendous investment effort.

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d. Single Estimates

The Panel also is somewhat concerned -- probably, as they put it, "because of its academic bias" -- with the failure of the paper to provide alternative answers to some of the questions raised. It is recognized, however, that this may not be possible in view of the nature of the consumers of this paper.

The AD/RR replied to this point, stating that we are required to give one estimate, but that we can and do express our estimates in different degrees of certainty.

Other Discussion Highlights

25X1A5a Dr. [REDACTED] indicated that there was a certain lack of clarity in the section of the paper on foreign trade. It would have been helpful to show how the precise projections of table 8 were derived and also to give an indication of commodity composition of the trade. The impression given by the paper is that the economic penetration activity is not so significant, although many

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official statements, including speeches by the Director, make much of it. Mr. [REDACTED] replied that the Sino-Soviet Bloc economic offensive is the subject of a separate estimate; the present one was concerned with economic growth -- it would probably have been better to show the relationship more definitely. The AD/RR pointed out that the other estimate also covers Soviet intentions and is the vehicle by which we put forward our ideas of the importance of the economic offensive to the community; we certainly do not underrate it, but regard it as a battlefield. The Ch/E/RR stated that the trade projections are based on extrapolations from GNP and are not built up from individual commodities. Dr. [REDACTED] recognized the limitations of using commodities for this purpose, but he felt that at least the significance of certain commodities should be shown.

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Dr. [REDACTED] commented on the summary pages, pointing out that p. 6 gives an impression of great difficulties confronting the Soviet leadership, but p. 7 seems to present a different picture. He noted the absence of material on public finance and recognized that in the Soviet system this was essentially not a problem; possibly the paper should have noted this fact. He felt that the Soviet tax, wage and price structures as tools for providing incentives should have been mentioned. Dr. [REDACTED] replied that there had been some material on this, but it was left out of this version as its significance did not appear great.

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Dr. [REDACTED] suggested that the Panel was handicapped by not being sure of the exact function of the document and that a look at the terms of reference would have been helpful. The Ch/E/RR replied that while the terms of reference for this type of annual estimate are more or less standard, they are sufficiently flexible to give us considerable leeway. It would be helpful, he said, if the Panel would review the draft paper's coverage and express an opinion as to whether or not some important areas of economic analysis were missing.

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Dr. [REDACTED] said that he hoped future sessions of the Panel would provide more time to talk to individual analysts. The Panel concurred on this point, and Dr. [REDACTED] said it was evident that ORR had in fact given a lot of thought to every question which the Panel had raised, so that more discussions with the analysts would be very useful.

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Dr. [REDACTED] inquired whether there was enough opportunity after all the demands on ERA had been met to do any speculative research. Mr. [REDACTED] replied by outlining the programming procedure and pointing out that a large proportion of our research time was reserved for self-initiated work; one problem is that those individuals most capable of productive original research are those most involved in meeting our consumer demands. The Ch/E/RR suggested that we do manage quite a bit of original research and are increasing our ability to do it because we have built up a basis of background material that makes it fairly routine to handle many of the questions we are asked.

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The meeting closed with an exchange in which the Panel expressed its appreciation of the opportunity to review our work, and the AD/RR thanked the Panel for its activities and expressed the view that future sessions would be equally valuable.

Meeting with the Director

Following the meeting with ORR, the Panel met with the DCI, DDCI, DD/I together with senior ORR officials. The substance of the Panel's comments on the paper was repeated at this session. In addition the Panel members commented favorably on the calibre of the ORR personnel with whom they had been working and on the scope and quality of ORR's work as they had seen it. They put forward a strong recommendation that efforts be made to publish for outside use as much of our economic work as possible. ORR is uniquely able to do research in depth on many aspects of the Soviet economy. This work would be of great benefit to the academic community, while ORR's work would also benefit from the comments and criticism of outside experts, as well as from the additional independent studies such material would stimulate. A wider knowledge of the nature of the Agency's activities in this field would also have a favorable effect on our recruiting activities.

Distribution:

1 - AD/RR
1 - DAD/RR
✓ 2 - Ch/E
1 - Ea Div., Br., and Staff Chief
1 - St/PR
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St/PR/RR [REDACTED] blw/4017 (18 Sept 59)